

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7741

BILL NUMBER: HB 1005

NOTE PREPARED: Jan 18, 2005

BILL AMENDED:

SUBJECT: Life Long Learning Tax Credit.

FIRST AUTHOR: Rep. Harris T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill establishes a Pilot Life Long Learning Tax Credit Program. The bill requires the Office of the Lieutenant Governor to conduct a study of the impact of the Life Long Learning Tax Credit Program. It also transfers 1% in the state fiscal year beginning July 1, 2005, of the money in the Skills 2016 Training Fund to the state General Fund to replace money lost from granting Life Long Learning Tax Credits.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Lt. Governor:* The bill establishes a Life Long Learning Tax Credit Pilot Program for employers, and their employees, in 6 counties: Blackford, Grant, Howard, Jefferson, Orange, and Randolph. The bill provides for the Lt. Governor's Office to administer the Program. Under the bill, the Lt. Governor's Office is responsible for: (1) approving life long learning plans proposed by employers in accordance with criteria specified under the bill; (2) certifying employee and employer contributions to life long learning accounts for purposes of being eligible for the Life Long Learning Tax Credit; and (3) allocating the annual amount of tax credits available to employees and employers for these contributions. It appears also that the Lt. Governor's Office would have to monitor life long learning account transactions to ensure that money in accounts for which tax credits are certified is being used for eligible educational expenses. The bill also requires the Lt. Governor's Office to establish a program to provide information on the Program to employers and employees, and to evaluate the Program. The bill requires that the evaluation include a fiscal analysis of the Program, an assessment of the Program's effectiveness in retaining jobs, increasing income, and increasing the tax base in pilot counties. The study also must measure the extent to which life long learning practices are increased in counties covered by the Program.

The additional programmatic responsibilities placed on the Lt. Governor's Office could potentially require additional staffing. It is estimated that \$315,000 to \$325,000 annually could be made available to pay for Life Long Learning Tax Credits. This magnitude of funding could, for instance, provide 630 to 650 \$500 credits, to be allocated to employees and/or employers for contributions to life long learning accounts. Currently, there are about 5,500 business establishments in the 6 pilot counties employing about 96,000 people. It is estimated that the Program could potentially require one COMOT 3 position and one EMS VII position in the Lt. Governor's Office to administer the program. This estimate is based on current staffing of various economic development grant and incentive programs at the Indiana Department of Commerce. The total cost for these two staff members, including salary, fringe benefits, and indirect costs, is estimated to be \$95,249 in FY 2006.

Background: The January 6, 2005 state staffing table indicates that there are 15 full-time positions in the Lt. Governor's Office, with 5 positions vacant. Four of these vacancies are ESM positions.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. The DOR is also responsible for recovering tax credits from employees and employers when they are forfeited due to ineligible use of life long learning account funds. The DOR's current level of resources should be sufficient to implement these changes.

Skills 2016 Training Fund: The bill reduces the annual allocation to Ivy Tech State College from the Skills 2016 Training Fund from 55% to 54% of the money in the Fund. The bill provides that this 1% annual share of the Fund is to be transferred to the state General fund to pay for Life Long Learning Tax Credits allocated by the Lt. Governor's Office.

Under current statute, revenue from a 0.09% assessment on unemployment insurance wages of employers is deposited in the Skills 2016 Training Fund. In FY 2004, the assessment generated about \$16.0 M for the Fund, and the FY 2004 ending balance in the Fund was \$32.7 M. As of January 11, 2005, assessments to the Training Fund for FY 2005 total about \$2.5 M, with the balance totaling about \$31.5 M. It is estimated that a 1% allocation from the Fund could potentially total about \$315,000 to \$325,000 annually.

Explanation of State Revenues: *Summary:* The bill could potentially result in an annual transfer from the Skills 2016 Training Fund to the state General Fund to pay for Life Long Learning Tax Credits under a pilot program established by the bill. The bill prohibits the amount of credits allocated each year from exceeding this annual transfer. Based on the current balance in the Skills 2016 Training Fund, this transfer could potentially total about \$315,000 to \$325,000 annually. Since the credit is effective for tax years 2006 and after, transfers could be required in FY 2006 and FY 2007. The estimated transfer would pay for 630 to 650 \$500 Life Long Learning Tax Credits each year. These credits could be allocated to employees who have contributed to their own life long learning accounts, or to employers who have made matching contributions to accounts of their employees.

Background: The bill establishes a pilot program for a nonrefundable Life Long Learning Tax Credit to be administered by the Lt. Governor's Office. The credit could be taken against a taxpayer's Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or the Insurance Premiums Tax liability. The tax credit would be granted for qualified employee contributions and employer matching contributions to life long learning accounts established for individuals who are full-time employees of businesses in 6 counties: Blackford, Grant, Howard, Jefferson, Orange, and Randolph. Under the bill, the Lt. Governor's Office is responsible for allocating credits for qualified employee contributions and employer matching contributions to life long learning

accounts.

The tax credit for contributions to a life long learning account by an employee of a business in a pilot county, and the tax credit for each contribution by a pilot county business to an employee's life long learning account, is the lesser of: (1) the contribution to the account; (2) \$500; or (3) the credit amount allocated to the employee or business by the Lt. Governor's Office for the taxable year. The credit is nonrefundable, but credits in excess of the taxpayer's state tax liability may be carried forward to subsequent tax years. The taxpayer is not allowed to carry back any unused credit. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity. The bill limits the total credits allocated in a fiscal year by the Lt. Governor's Office to 1% of the money in the Skills 2016 Training Fund.

The bill provides that interest earnings on life long learning account balances are excluded from Indiana Adjusted Gross Income. In addition, the bill requires a taxpayer receiving life long learning credits to addback to Indiana AGI any deduction from federal AGI or federal taxable income the taxpayer claimed for the same educational expenses paid from the account. The additional AGI Tax revenue that might be generated due to this addback would be minimal.

The tax credit is effective beginning in tax year 2006. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Tax Credit Qualification: To qualify for the tax credit, an employer must establish a life long learning account for each employee. An account would hold in trust an employee's contributions and his or her employer's matching contributions to provide educational assistance for the employee. The account is established by the employer pursuant to a life long learning plan certified by the Lt. Governor's Office. The bill defines "educational assistance" as: (1) a payment by an employer of eligible education expenses incurred by or on behalf of a full-time employee for the employee's education; and (2) a payment, that at the time it is made, it is reasonable to believe that the employee will be able to exclude the payment from federal gross income. Educational expenses that are eligible for payment from a life long learning account include tuition, fees, and similar payments, and books, supplies, and equipment. However, they don't include: (1) tools or supplies that may be retained by the employee after completion of a course; (2) meals, lodging, or transportation; (3) any course or other education involving sports, games, or hobbies.

Forfeiture of Tax Benefits and Penalties: The bill provides that an employee may withdraw his or her contributions to a life long learning account at any time for any purpose. However, the employee forfeits the tax credits for an amount withdrawn that is not used to pay for eligible education expenses or transferred to a life long learning account of another employer. Employers are allowed to transfer employer matching contributions to another account without forfeiture of tax benefits. If matching contributions are not utilized for eligible educational expenses because the employer terminates the life long learning plan, the employer's tax benefits are forfeited and the employer is subject to a penalty of 10% of the tax benefits received.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Lt. Governor, Department of State Revenue, Ivy Tech State College.

Local Agencies Affected:

Information Sources: U. S. Census Bureau, *2002 County Business Patterns*.

Fiscal Analyst: Jim Landers, 317-232-9869.